

DG 05-148

NORTHERN UTILITIES, INC. – PELHAM DIVISION

2005/2006 Winter Cost of Gas

Order Approving Cost of Gas Rate

O R D E R N O. 24,537

October 31, 2005

APPEARANCES: Seth L. Shortlidge, Esq. of Pierce Atwood LLP, and Patricia M. French, Esq., on behalf of Northern Utilities, Inc.; and Edward N. Damon, Esq., for the Staff of the New Hampshire Public Utilities Commission

I. PROCEDURAL HISTORY

On September 13, 2005, Northern Utilities, Inc. – Pelham Division (Northern) filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) for the period November 1, 2005, through April 30, 2006, for Northern’s propane service to 18 commercial customers located in Pelham, New Hampshire. The filing was accompanied by supporting attachments and the direct testimony of Joseph A. Ferro, Manager of Regulatory Policy.

On September 21, 2005, the Commission issued an Order of Notice setting a deadline for intervention requests and scheduling a hearing for October 19, 2005. No motions to intervene were filed. On October 19, 2005, Commission Staff (Staff) filed a request to reschedule the hearing for October 26, 2005, which was granted by secretarial letter that same day. On October 20, 2005, Northern filed a revised COG and the duly noticed hearing on the merits was held at the Commission on October 26, 2005.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Mr. Ferro explained that Northern's Pelham Division customers are supplied propane through a 19,000 gallon tank. Mr. Ferro then addressed the following issues: 1) calculation of the COG rate and the impact on customer bills; and 2) plans to sell the system with minimal impact on the existing customers.

1. Calculation of the COG Rate and Rate Impact

As indicated on the proposed revised tariff page 40, the proposed 2005/2006 winter COG rate of \$1.4472 per therm was calculated by decreasing the anticipated cost of gas of \$82,980 by the prior period over-collection of \$1,590 and related interest of \$75 and dividing the resulting anticipated costs of \$81,315 by projected therm sales of 56,186. Mr. Ferro testified that the increase in the proposed COG rate as compared to last winter's rate can be primarily attributed to higher actual and forecasted propane prices for the upcoming winter period as compared to last winter's prices.

Northern's proposed 2005/2006 winter COG rate of \$1.4472 per therm represents an increase of \$0.3778 per therm from the 2004/2005 average weighted winter COG rate of \$1.0694 per therm. According to Northern, assuming a monthly usage of 200 therms by a low annual/high winter use commercial customer, the proposed increase in the COG rate of \$0.3778 per therm combined with an increase in the Local Distribution Adjustment Charge of \$0.0188 per therm will increase the total monthly gas bill by \$79, or 28 percent, compared to last winter.

2. Plans to Sell the Pelham System

In *Northern Utilities, Inc.*, 87 NH PUC 269, 271 (2002), approving the Northern – Pelham Division 2002 summer COG, the Commission directed Northern to develop and file a

plan to deregulate Pelham Plaza propane service and minimize customer impacts. The directive came about as a result of the recognition by Staff and Northern that natural gas service cannot be economically provided to Pelham and that the existing propane service was not intended to be subject to Commission regulation indefinitely.

Mr. Ferro testified that Northern had notified the owner of the Pelham Plaza of plans to discontinue regulated service and Northern had offered to sell the propane equipment serving the Pelham Plaza to the owner. Northern responded to the owner's questions regarding the cost and operation of the system, but the owner decided against the purchase of the system.

In Commission Order No. 24,391 (October 29, 2004), approving Northern-Pelham Division's 2004/2005 winter COG, the Commission directed Northern to notify all customers and interested parties of a meeting to discuss the future of the Pelham Division. Following notification, a meeting was held December 17, 2004, in Pelham. While none of the customers served by Northern attended, two propane suppliers attended and expressed interest in providing service to the Pelham Plaza.

On May 4, 2005, Northern mailed a Request for Bid to the two retail propane suppliers but has not received a response from either of the suppliers. Northern plans to contact the two propane suppliers within the next month to determine if they are still interested in purchasing the Pelham Plaza propane facilities to serve the Pelham customers. If either supplier is interested, Northern will proceed accordingly to negotiate a sale. If neither supplier is interested, Northern will work with Staff to seek alternate resolution.

On cross examination, Mr. Ferro expressed his surprise at the lack of interest displayed by propane retail dealers in purchasing the Pelham facilities, although he did note that some of those dealers may be concerned with pipeline safety regulations and whether they apply

to a system that involves a single 19,000 gallon propane tank and underground piping. He stated that there was insufficient room on the property to install separate tanks for each customer, a fact that some assume means the pipeline safety regulations are fully applicable. He also stated that, even though the Pelham Plaza customers had received the letter notice from Northern, to his knowledge none of the Pelham customers have expressed any concerns regarding the discontinuance of regulated utility service. Mr. Ferro stated that Northern is prepared to operate the Pelham Division as an unregulated entity, if need be, but observed that the Pelham COG rate is approximately 10% below market prices and any move to unregulated service would likely result in a slight increase in the propane rates to Pelham customers.

B. Staff

Staff stated that it had reviewed the filing and recommended approval of the proposed COG rate, noting that the demand and supply planning is consistent with what has been filed and approved by the Commission in previous years. Staff added that customers are protected by the COG reconciliation, through which actual gas costs and revenues are reconciled and reviewed in the subsequent COG period. Staff expressed its willingness to continue to work with Northern in its efforts to sell the Pelham facilities or otherwise discontinue regulated service to those customers, without disrupting propane service to existing customers.

III. COMMISSION ANALYSIS

After review of the record in this docket, we find that Northern's proposed COG rate will result in a just and reasonable rate pursuant to RSA 378:7. Accordingly, we accept and approve Northern's proposed 2005/2006 winter COG rate. It is important to point out that the cost of gas mechanism is structured in a way that prevents the utility from realizing increased profits when the cost of gas increases.

In Order No. 24,391, approving the 2004/2005 Pelham winter COG, we explained why it may no longer be appropriate that the Pelham Plaza be regulated as a public utility. We also directed that a meeting of interested parties be held regarding the future operations of the Pelham Division and noted certain options to be discussed, including the sale of the Pelham Division to an unregulated third party, the continued operation of the Pelham Division facilities by Northern on an unregulated basis or the continued operation of the Pelham Division on a regulated basis. We expressed our desire that a plan of future operation be resolved by the time the 2006 summer COG is filed with the Commission.

Despite Northern's efforts to organize and hold a meeting of interested parties and contact potential bidders, there has been no progress in resolving a plan of future operation. It is still our hope that there will be a resolution by the 2006 summer COG and we encourage the Staff and Northern to pursue this issue with that goal in mind. We direct Northern to follow up with the propane suppliers to determine their current level of interest in purchasing the Pelham Plaza facilities and their reasons for not submitting bids and to report its findings to the Staff by December 31, 2005.

In addition, in the event there is no interest by others to purchase the system, we direct Northern to file with the Commission an explanation of how it would provide unregulated propane service, if the Commission were to determine that unregulated service would be appropriate. In that regard, we direct Northern to file as well an analysis of the applicability to these circumstances of the test set forth in *Appeal of Zimmerman*, 141 N.H. 605 (1997).

Based upon the foregoing, it is hereby

ORDERED, that Northern Utilities, Inc. - Pelham Division's proposed Winter COG rate of \$1.4472 per therm for the period November 1, 2005 through April 30, 2006, is **APPROVED**, effective for service rendered on or after November 1, 2005; and it is

FURTHER ORDERED, that Northern may, without further Commission action, adjust the approved COG rate upward or downward monthly based on Northern's calculation of the projected over or under-collection for the period, but the cumulative adjustments shall not exceed twenty percent (20%) of the approved unit cost of gas; and it is

FURTHER ORDERED, that Northern will provide the Commission with its monthly calculation of the projected over or under calculation, along with the resulting revised COG rate for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Northern shall include a revised tariff page 40 - Calculation of Cost of Gas and revised rate schedules if Northern elects to adjust the COG rate; and it is

FURTHER ORDERED, that the over or under-collection shall accrue interest at the Prime Rate reported in the *Wall Street Journal*. The rate is to be adjusted each quarter using the rate reported on the first date of the month preceding the first month of the quarter; and it is

FURTHER ORDERED, that Northern shall file properly annotated tariff pages in compliance with this Order no later than fifteen (15) days from the issuance date of this Order, as required by N.H. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this thirty-first
day of October, 2005.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Michael D. Harrington
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary